REVISED DIRECT TESTIMONY

of

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Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Proposed General Increase in Gas Rates

Ameren Illinois Company d/b/a Ameren Illinois

Docket No. 13-0192

June 27, 2013

Table of Contents

Witness Identification *1*
Schedule and Attachment Identification *2*
Adjustment to Reflect Rental Revenues *4*
Adjustment to Advertising Expense *6*
Adjustment to Office Supplies Expense *8*
Adjustment to Industry Dues *11*
Adjustment to Remove Lobbying Expense *12*
Divestiture of Merchant Generating Assets *13*
Reporting Recommendations *13*
Other Comments *15*
Conclusion *15*

SCHEDULES

SCHEDULE 4.01 – ADJUSTMENT TO REFLECT RENTAL REVENUES

SCHEDULE 4.02 – ADJUSTMENT TO ADVERTISING EXPENSE

SCHEDULE 4.03 - ADJUSTMENT TO OFFICE SUPPLIES EXPENSE (PUBLIC AND CONFIDENTIAL)

SCHEDULE 4.04 – ADJUSTMENT TO INDUSTRY DUES EXPENSE (PUBLIC AND CONFIDENTIAL)

SCHEDULE 4.05 – ADJUSTMENT TO REMOVE LOBBYING EXPENSE

ATTACHMENTS

ATTACHMENT A – ANALYSIS OF ADVERTISING EXPENSES

ATTACHMENT B – RESPONSE TO DR BAP 10.02 ATTACH 1

<u>Witness Identification</u>

Q. Please state your name and business address.

A. My name is Bonita A. Pearce. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. By whom are you employed and in what capacity?

A. I am currently employed as an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission ("ICC" or “Commission”).

Q. Please describe your background and professional affiliations.

A. I am a licensed Certified Public Accountant with a Bachelor of Science in Accountancy from Illinois State University. Prior to joining the Staff of the Commission (“Staff”) in March of 2001, I was engaged in the practice of public accounting for sixteen years. I returned to the practice of public accounting for a brief period in 2005, before returning to the Commission in 2006.

Q. Have you previously testified before a regulatory body?

A. Yes, I have testified on several occasions before the Commission.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present the results of my review of the filings of Ameren Illinois Company ("AIC" or the "Company") and the analysis of underlying data that include the following:

1. Propose adjustments to the Statement of Operating Income concerning rental revenues, advertising expenses, office supplies expenses, industry dues, and lobbying costs;
2. Recommend that the Company assess the impact of the divestiture of the merchant generating assets in the subsequent gas rate proceeding and for the Company to provide evidence in that proceeding that an effort was made to mitigate the costs of the transaction and the corresponding impact on AIC and its affiliates;
3. Recommend reporting requirements regarding costs allocated from Ameren Services Company ("AMS") to AIC pursuant to the General Services Agreement ("GSA") approved by the Commission in Docket No. 09-0234; and
4. Recommend that AIC provide electronic copies of all Federal Energy Regulatory Commission ("FERC") orders resulting from a FERC audit of costs or procedures that are subject to allocation or direct assignment to AIC and any responses to FERC by AIC.

<u>Schedule and Attachment Identification</u>

Q. Are you sponsoring any schedules or attachments as part of ICC Staff Exhibit 4.0?

A. Yes. I prepared the following schedules that reflect data as of, or for the test year ending, December 31, 2014:

Schedule 4.01 - Adjustment to Reflect Rental Revenues

Schedule 4.02 - Adjustment to Advertising Expense

Schedule 4.03 - Adjustment to Office Supplies Expense (Public and Confidential)

Schedule 4.04 - Adjustment to Industry Dues Expense (Public and Confidential)

Schedule 4.05 - Adjustment to Remove Lobbying Expense

I also prepared the following attachments:

Attachment A – Analysis of Advertising Expenses

Attachment B – Response to DR BAP 10.02 Attach 1

Q. Please explain the RZ suffixes that appear in your schedule and attachment numbers and references.

A. These suffixes indicate the rate zone to which a particular schedule applies. RZ-1 indicates Rate Zone I, formerly AmerenCIPS; RZ-2 indicates Rate Zone II, formerly AmerenCILCO; and RZ-3 indicates Rate Zone III, formerly AmerenIP. For example, Schedule 4.01 RZ-1 presents my Adjustment to Reflect Rental Revenues for Rate Zone I, which was formerly AmerenCIPS.

Adjustment to Reflect Rental Revenues

Q. Please describe ICC Staff Exhibit 4.0, Schedule 4.01 Adjustment to Reflect Rental Revenues.

A. ICC Staff Exhibit 4.0, Schedules 4.01 by rate zone present my adjustment to reflect a full year's rental revenues from Ameren Missouri in the test year revenue requirement for Ameren Missouri's use of the Enterprise Asset Management System ("EAMS") and the Mobile Work Management System ("MWMS"), as described in the Company's response to Staff data request ("DR") ENG 4.01.

Q. What is the basis for your adjustment?

A. The purpose of my adjustment is to reflect rental income that will be received from Ameren Missouri beginning January 2015 for use of the EAMS and MWMS that will be wholly owned by AIC. According to the Company's response to Staff DR ENG 4.02, none of these revenues are reflected in the schedules that support the filing for the 2014 test year rates in the instant proceeding. However, AIC estimates it will receive approximately $772,000 per year on average from Ameren Missouri beginning in 2015 according to the Company's response to Staff DR ENG 4.01. None of those revenues are reflected in the filing even though the costs of these projects are reflected in the 2014 rate base. Since AIC expects to receive about $772,000 of rental revenue in 2015 and the associated costs are included in the test year rate base, I have included the estimated rental income of $772,000 as rental income in the test year. Without my adjustment, ratepayers will not receive the benefit of any of the $772,000 rental income that AIC will collect from Ameren Missouri in 2015 while paying for the cost of the projects in the 2014 rate base.

Q. Has AIC reflected any other costs in the 2014 test year that relate to these two projects?

A. Yes. The Company's response to Staff DR BAP 1.05 (d) provides:

> At present, the current 2014 O & M assumptions for these projects include software maintenance fees and internal IT support at a cost of $620,895 (which would be allocated 86% or $533,970 to AIC and 14% or $86,925 to Ameren Missouri). In addition, this project has budgeted O & M dollars for training and contingency but there has not yet been a final determination of what labor resources will be used.

Since AIC included the O & M costs of this project in the 2014 test year filing, it is necessary to also include the corresponding revenues that would partially offset those costs. If the Commission does not accept my adjustment to reflect these additional rental revenues, I propose to remove from the 2014 test year those AIC costs for support of these projects as described in the Company response to BAP 1.05 (d), $533,970 plus associated costs for training and contingency that require further quantification by the Company.

Adjustment to Advertising Expense

Q. Please describe ICC Staff Exhibit 4.0, Schedule 4.02 Adjustment to Advertising Expense.

A. ICC Staff Exhibit 4.0, Schedules 4.02 by rate zone reflect my adjustment to reduce the Company's forecasted 2014 advertising expense for amounts that are not recoverable in rates, either because the underlying costs 1) were previously disallowed by the Commission in Docket No. 12-0293; 2) are in excess of the two percent inflation factor applied to estimated 2012 and 2013 costs; or 3) in excess of a calculated four-year average of advertising expenses.

My adjustments are necessary because the Company's 2014 forecasted advertising expense appears unreasonable compared to the most recent actual 2012 expenses adjusted for the two percent inflation factor for 2013 and 2014. The amount requested by AIC on Schedule C-8, $1,757,000, is 68% higher than the four-year average that I calculated of $1,048,000 (before adjustment to remove amounts previously disallowed by the Commission in Docket No. 12-0293).

Q. Please explain the reduction of advertising costs that were previously disallowed by the Commission in Docket No. 12-0293.

A. My adjustment reduces the 2014 forecasted advertising expense for 2011 – 2012 costs previously disallowed by the Commission in Docket No. 12-0293,[1] as unsupported and/or unreasonable for rate recovery:

i) Payments to Strategic International Group (formerly Mercury Public Affairs), $72,720;

ii) Charges to Ameren credit cards (formerly known as "P-cards"), $3,229; and

iii) Sponsorships for which the Company received some type of benefit in return, such as meals or entertainment, $24,400.

In order to remove these previously disallowed amounts from the test year forecast, I utilized the jurisdictional amounts from 2012 (identified by the Company in response to Staff DR BAP 6.02) and subtracted those amounts from the actual jurisdictional 2012 total advertising expense to obtain an adjusted jurisdictional expense balance for 2012.

Q. Please explain the disallowance of advertising costs that are in excess of the two percent inflation factor applied to adjusted 2012 and 2013 costs.

A. My adjustment also removes the amount by which the 2014 forecast exceeds the 2 percent inflation factor applied by AIC to adjusted 2012 and 2013 estimates.

[1] Order, Docket No. 12-0293, December 5, 2012, pp. 62 – 77.

Q. Please explain your alternative calculation of 2014 advertising expense using an adjusted four-year average of advertising expenses.

A. I performed a similar analysis substituting a four-year average amount of expense in lieu of the 2012 actual expense.[2] Using the same methodology, I removed the previously disallowed amounts and inflated the result by 2% for 2013 and 2% for 2014. I compared my estimates based on the adjusted 2012 actual expense and based on the adjusted four-year average expense. I then concluded the Company's 2014 forecasted expense was unsupported by the amount it exceeds the greater of these two estimates. Accordingly, my adjustment is based on the difference between the Company's 2014 forecasted expense and my 2014 estimate which is based on escalation of the adjusted 2012 actual amount.

Adjustment to Office Supplies Expense

Q. Please describe ICC Staff Exhibit 4.0, Schedule 4.03 Adjustment to Office Supplies Expense.

A. ICC Staff Exhibit 4.0, Schedules 4.03 by rate zone reflect my adjustment to reduce office supplies expense for amounts that are not recoverable in

[2] *See* Staff Exhibit 4.0, Attachment A for calculation of my four-year average. Note that a five-year average was also calculated, but is not used because the expense for 2008 appears to be an outlier.

rates, either because the underlying costs 1) represent sponsorships for which the Company received some benefit in exchange for the amount spent; 2) are not necessary for the provision of utility service; 3) represent lobbying costs which are prohibited from recovery in rates; or 4) exceed the 2014 estimate of costs that would be obtained by applying a 2% inflation factor to the adjusted 2012 and 2013 costs.

My adjustments are necessary because the Company's 2014 office supplies and expense forecast is unreasonable compared to the actual 2012 expenses increased by the 2% inflation factor for 2013 and 2014 after adjusting to remove utility services, revolving credit bank fees, and non-recoverable items. The amount requested by AIC on Schedule C-4, \$8,892,000, is 27% higher than the estimate that I calculated of \$6,991,000.[3]

Q. Please explain why you reduced actual 2012 office supplies and expenses for charges related to utility services and revolving credit bank fees in deriving your estimate.

A. My adjustment reduces the actual 2012 expense for those items that are not included in the Company's 2014 office supplies and expense forecast. Those items are utility services and revolving credit bank fees, according to the Company's response to Staff DR KC 2.01. Therefore, I reduced actual 2012 office supplies and expense for these costs to produce an

[3] Staff Exhibit 4.0, Schedule 4.03, line 10 details this calculation.

expense amount that would contain the same types of expense as the Company's 2014 forecast; i.e., for comparability.

Q. Please explain your rationale for removal of certain expenses that should not be recovered from ratepayers.

A. Schedules 4.03, lines 11 through 17, describe certain expenses that appear not to be recoverable from ratepayers for the following reasons:

i) Amounts on lines 11 and 12 relate to a sponsorship similar to the type previously disallowed by the Commission in Docket No. 12-0293 because the Company received benefits in the form of meals, entertainment or recognition for the payment;

ii) Amounts on lines 15 and 16 were unsupported by copies of invoices or receipts; and

iii) The amount on line 17 constitutes lobbying expense, prohibited from recovery by law, as described in a separate section of this testimony.

Q. Please explain the disallowance of the amount that exceeds the two percent inflation factor applied to adjusted 2012 and 2013 costs.

A. My adjustment also removes the amount by which the 2014 forecast exceeds the 2 percent inflation factor applied by AIC to adjusted 2012 and 2013 estimates.

Adjustment to Industry Dues

Q. Please describe ICC Staff Exhibit 4.0, Schedule 4.04 Adjustment to Industry Dues.

A. ICC Staff Exhibit 4.0, Schedules 4.04, Adjustment to Industry Dues by rate zone, present my adjustment to remove estimated costs that are not recoverable because the costs are unrelated to the provision of gas service or because the costs relate to lobbying activities.[4]

I calculated the proportionate percentage of these non-recoverable items to the total industry dues that were allocated to gas service in 2012 and applied that percentage to the 2014 forecast to remove similar non-recoverable items from the test year revenue requirement.

Q. Please provide the rationale for the disallowance of costs that are unrelated to the provision of gas service.

A. The costs for the membership to Edison Electric Institutes should not be reflected in gas rates because gas customers do not benefit from the Company's membership in the Edison Electric Institute. Additionally, the charges from Hunton & Williams LLP also appear to support the electric function. Therefore, gas customers do not receive any benefit from this service.

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[4] The Company's response to DR BAP 10.02 Attach 1 is provided in Attachment B to my direct testimony that contains a description of each charge.

Q. Please provide the rationale for the disallowance of costs for lobbying activities.

A. I am disallowing costs for American Gas Association and St. Louis Area Business Health Coalition because they represent lobbying activities. Such expenses are prohibited from recovery in utility rates, according to Section 9-224 of the Illinois Public Utilities Act ("Act") (220 ILCS 5/9-224), which states:

> The Commission shall not consider as an expense of any public utility company, for the purpose of determining any rate or charge, any amount expended for political activity or lobbying as defined in the "Lobbyist Registration Act".

Additionally, it appears that the Hunton & Williams LLP services should be disallowed not only because the costs relate to the electric function, but also because the costs may represent costs for lobbying activities.

<u>Adjustment to Remove Lobbying Expense</u>

Q. Please describe ICC Staff Exhibit 4.0, Schedule 4.05 Adjustment to Remove Lobbying Expense.

A. ICC Staff Exhibit 4.0, Schedules 4.05 Adjustment to Remove Lobbying Expense, by rate zone, presents the disallowance of estimated costs of lobbying expense from the test year forecast in conformance with Section 9-224 of the Act, as previously quoted. My adjustment removes a portion of two employees' salaries that relate to lobbying during 2012[5] and

[5] Company's response to Staff DR BAP 4.01(c)

reflects the two percent inflation factor applied to estimate amounts for 2013 and 2014.

Divestiture of Merchant Generating Assets

Q. Have you considered the potential impact that divestiture of the merchant generating assets might have on delivery service rates in the instant proceeding?

A. Yes, I have. The transaction is not scheduled to occur before the fourth quarter of 2013, based on a 16-111(g) notice submitted to the Commission by the Company on May 6, 2013. Because the transaction is still speculative, it is not yet known whether it will occur or the full extent of its impacts when it does occur. Accordingly, I recommend that the Commission order the Company to assess the impact of the divestiture of the merchant generating assets in the subsequent gas rate proceeding and for the Company to provide evidence in that proceeding that an effort was made to mitigate the costs of the transaction and corresponding impact on AIC and its affiliates.

Reporting Recommendations

Q. Do you have any reporting recommendations pursuant to the costs allocated to AIC from AMS pursuant to affiliate agreements approved by this Commission in Docket No. 09-0234?

A. Yes. Based on my review of the costs allocated to AIC from AMS, I recommend the Commission include the following finding in the Order for this proceeding:

1. AIC will provide an electronic copy of its FERC Form 60 with the Manager of Accounting of the Commission on the day the FERC Form 60 is filed with FERC; and

2. AIC will notify the Manager of Accounting of the Commission within 30 days of implementation of substantial changes to service company allocation factors.[6]

Q. Has the Commission reached similar conclusions in other dockets?

A. Yes, the Commission has supported reporting requirements related to intercompany charges in Docket No. 05-0597 for Commonwealth Edison Company[7].

Q. Do you have any other recommendations for additional reporting requirements?

A. Yes. The Commission should order AIC to provide electronic copies of all FERC orders resulting from a FERC audit of costs or procedures that are subject to allocation or direct assignment to AIC and any responses to FERC by AIC to the Manager of Accounting of the Commission.

[6] A substantial change in the allocation basis for a function or a change in the calculation of the factor that results in an increase or decrease in AMS costs allocated to AIC by more than 5% or $5 million, whichever is greater, relative to the prior calendar year.
[7] Order, Docket No. 05-0597, July 26, 2006, pp. 7 – 8.

Other Comments

Q. Do you have any other comments?

A. Yes. I reviewed charges made by AIC employees using the Ameren credit card (formerly called “P-card” purchases) in the course of my review of account 921, office supplies and expenses. I sent out Staff DR BAP 20.01 on June 7, 2013 and am awaiting the Company’s response to Staff DR BAP 20.01 that specifically addresses credit card charges during certain months of 2012. Because this response is currently outstanding, I may propose further adjustments in supplemental direct testimony that may result from my review and analysis of this response.

Additionally, I received a quantity of detailed information from the Company in response to certain Staff DRs related to affiliate interest transactions and allocations. I am still in the process of reviewing this information; therefore, I may propose further adjustments in supplemental direct testimony to address this area after my review is complete.

Conclusion

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.